Fiscal Note 2017 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	SB0394		**Title:**	Revise intangible personal property exemption and unit valuation methodology
Primary Sponsor:	Blasdel, Mark		**Status:**	As Introduced

✓Significant Local Gov Impact ✓Needs to be included in HB 2 ☐Technical Concerns

☐Included in the Executive Budget ☐Significant Long-Term Impacts ☐Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$0	$1,953,558	($891,875)	($907,799)
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	($10,969,267)	($11,336,003)	($11,739,893)
State Special Revenue	$0	($690,905)	($714,004)	($739,443)
Net Impact-General Fund Balance:	$0	($12,922,825)	($10,444,128)	($10,832,094)

Description of fiscal impact: SB 394 revises the intangible personal property (IPP) exemption for centrally assessed companies by exempting additional items from taxation and by requiring that the value of IPP be determined by the asset value as reflected on the taxpayers' books and records, or based on market value. The estimated reduction in state property tax revenue is $11.660 million in FY 2017, $12.050 million in FY 2018, and $12.479 in FY 2019. SB 394 would also have a significant revenue impact to local governments and schools.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Under current law, centrally assessed companies are valued as a unit and given an exemption for intangible personal property (IPP). This determines their market value for property tax purposes.
2. To determine the centrally assessed companies IPP value, they are given either a standard IPP exemption based on their industry or they may request an alternative IPP exemption based on the definition of IPP in current statute (15-6-218, MCA). The standard exemption, the average exemption currently being taken, and the total number of centrally assessed companies are listed in the table below.

Current Law - IPP Exemption			
Industry	**Standard IPP**	**Average IPP**	**Companies**
Airlines	10.0%	11.1%	16
Electric	10.0%	10.1%	14
Electric Co-op	5.0%	5.0%	32
Pipelines	5.0%	6.7%	24
Railroads	5.0%	8.3%	8
Telecommunications	15.0%	23.0%	28
Telephone Co-ops	5.0%	5.2%	10
Total	**7.3%**	**10.6%**	**132**

3. SB 394 revises the definition of IPP to include a number of items not previously included such as customer relationships and going concern. SB 394 also specifies that IPP is to be determined based on the asset value as reflected on the books and records of the taxpayer or the market value.
4. There are 17 companies that do not take the standard IPP exemption. SB 394 would increase their current exemption to account for additional IPP value that is not included under current law but is proposed under SB 394. In addition, two of these companies have undergone an IPP study that valued their market value of IPP greater than their book value of IPP. The table below lists these 17 companies average current exemption, their estimated average SB 394 exemption, and the number of companies by industry type.

Companies Not Taking The Standard Exemption			
Industry	**Average Current IPP**	**Average Proposed IPP**	**Companies**
Airlines	18.6%	33.3%	2
Electric	11.0%	13.1%	1
Electric Co-op	5.4%	5.4%	1
Pipelines	25.2%	28.9%	2
Railroads	31.3%	34.2%	1
Telecommunications	39.8%	53.8%	9
Telephone Co-ops	6.6%	9.0%	1
Total	**30.9%**	**41.6%**	**17**

5. For centrally assessed companies that currently take the standard IPP exemption, this fiscal note assumes that under SB 394 additional companies would submit IPP studies for use in determining their IPP market value. Under this assumption, the remaining companies may, on average, receive an IPP exemption approximately equivalent to the average IPP exemption of the companies listed in assumption #4.
6. Taxable value (TV) for centrally assessed companies for TY 2014 (FY 2015) is approximately $689.84 million. If the exemption would have been in place the taxable value would have been $584.39 million, a difference of $105.44 million. This bill applies to tax years beginning TY 2016 (FY 2017). Applying HJ 2 growth rates for FY 2016 and FY 2017, and OBPP rates for FY 2018 and FY 2019, the following table shows the current law TV, proposed TV, and the difference.

Change in TV			
FY	**Current TV**	**Proposed TV**	**Difference**
FY 2017	$753,352,352	$638,201,537	$115,150,815
FY 2018	$778,539,249	$659,538,586	$119,000,663
FY 2019	$806,277,754	$683,037,227	$123,240,526

7. The following table shows the state loss of revenue due to SB 394. State revenue includes the 6 mills levied for the University system and 95.26 mills which are the weighted average mills levied on centrally assessed

companies for the general fund (95 school equalization mills and 1.5 vo-tech mills levied on select counties).

Change in State Taxes			
FY	**Loss in 6-Mill**	**Loss in GF Mills**	**Total Revenue Loss**
FY 2017	$690,905	$10,969,267	$11,660,172
FY 2018	$714,004	$11,336,003	$12,050,007
FY 2019	$739,443	$11,739,893	$12,479,336

8. This bill will affect more than centrally assessed property owners; at this time, the department does not receive sufficient detail from those owners to fully evaluate the effect of the expanded list of intangible personal property.
9. There are no costs to the department.

Office of Public Instruction

10. Local school district mills would shift among tax types to provide the necessary revenue for school district budgets. The amount each taxpayer pays will change based on the change in value of property with respect to the district average but total local school taxes paid would essentially match present law.
11. SB 394 proposed changes to property tax classes creates a guaranteed tax base aid (GTB) cost in FY 2016 of $2.0 million and a GTB savings of $0.9 million in each year thereafter. The effects on the state general fund are outlined below:

FY 2016	FY 2017	FY 2018	FY 2019
$0	$1,953,558	-$891,875	-$907,799

12. Revenue received from county school levies for all district funds will not change due to this bill as tax shifting occurs.
13. There is negligible change to retirement GTB.

Fiscal Impact:	**FY 2016 Difference**	**FY 2017 Difference**	**FY 2018 Difference**	**FY 2019 Difference**
Office of Public Instruction (OPI)				
Expenditures: (OPI)				
Guaranteed Tax BASE aid (GTB)	$0	$1,953,558	($891,875)	($907,799)
TOTAL Expenditures	$0	$1,953,558	($891,875)	($907,799)
Funding of Expenditures:				
General Fund (01)	$0	$1,953,558	($891,875)	($907,799)
TOTAL Funding of Exp.	$0	$1,953,558	($891,875)	($907,799)
Department of Revenue (DOR)				
Revenues: (DOR)				
General Fund (01)	$0	($10,969,267)	($11,336,003)	($11,739,893)
State Special Revenue (02)	$0	($690,905)	($714,004)	($739,443)
TOTAL Revenues	$0	($11,660,172)	($12,050,007)	($12,479,336)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	($12,922,825)	($10,444,128)	($10,832,094)
State Special Revenue (02)	$0	($690,905)	($714,004)	($739,443)

Effect on County or Other Local Revenues or Expenditures:

1. The reduction in taxable value would change the mill rates set by local governments and schools. To the extent that local governments (under the provisions of 15-10-420, MCA) and schools (under the school funding provisions of Title 20) are able to adjust mills to account for the loss in taxable value, these taxes will shift to other taxpayers.
2. The following tables show the current centrally assessed weighted average mills for local governments and schools, and an estimate of the amount of revenue that will be shifted to other taxpayers.

Local Government - Tax Shift from SB 394

	Loss in TV	**Current Mills**	**Revenue Tax Shift**
FY 2017	$115,150,815	199.58	$22,981,800
FY 2018	$119,000,663	199.58	$23,750,152
FY 2019	$123,240,526	199.58	$24,596,344

School - Tax Shift from SB 394

	Loss in TV	**Current Mills**	**Revenue Tax Shift**
FY 2017	$115,150,815	189.28	$21,795,746
FY 2018	$119,000,663	189.28	$22,524,445
FY 2019	$123,240,526	189.28	$23,326,967

Sponsor's Initials *Date* *Budget Director's Initials* *Date*